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MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL STATEMENTS

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana
Years Ended June 30, 2007 and 2006

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Management's Discussion and Analysis and Basic Financial Statements

Years Ended June 30, 2007 and 2006

Contents

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Report of Independent Auditors

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have audited the accompanying basic financial statements of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the Hospital), as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

October 5, 2007

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Management's Discussion and Analysis

June 30, 2007

This section of the annual financial report of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the Hospital), presents background information and management's analysis of the Hospital's financial performance. Please read it in conjunction with the financial statements in this report.

Required Financial Statements

The basic financial statements of the Hospital report information about the Hospital using Government Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The balance sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net assets. This statement measures changes in the Hospital's operations over the past years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities and to provide answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Hospital

The balance sheets and the statements of revenue, expenses, and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting, should also be considered.

Financial Highlights for the Year Ended June 30, 2007

- The Hospital's total assets increased by approximately $12,167,000, or approximately 5%, primarily due to cash generated by operating and investing activities used to increase capital assets.

- During the year, the Hospital's total operating revenue increased approximately $22,168,000, or 12%, to $205,504,000 from the prior year while expenses increased $26,781,000, or 15%, to $200,975,000 primarily due to the nursing shortage after Hurricane Katrina which required additional contract nursing. The Hospital had income from operations of $4,529,000, which is approximately 2.2% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately $9,143,000, or 5% of operating revenue.

- The Hospital received approximately $4,174,000 in 2007 from a Medicare Stabilization Grant as part of the Deficit Reduction Act Katrina Healthcare Related of which $1,391,000 was used to offset Medicare contractual adjustments in 2007. The remaining $2,783,000 has been deferred to future periods. The Hospital also received approximately $404,000 and $2,904,000 in 2007 and 2006, respectively, in disproportionate share payments related to Uncompensated Care Costs which offset Medicaid contractual adjustments. These offsets resulted in an increase in net patient service revenue.

- During the fiscal year, the Hospital made capital investments for a total of approximately $23,855,000. The following is a list of significant items:

Capital Investments	2007 Cost
Rehab Campus Renovation	$3,944,000
Resource Building	3,186,000
North Access Road	3,107,000
Medical Center Expansion	2,144,000
Radiology Equipment	3,247,000
Emergency Generators	864,000

The source of the funding for these projects was derived from operations and receipts from 2003 bond issuances.

Financial Highlights for the Year Ended June 30, 2006

- The Hospital's total assets increased by approximately $18,074,000, or approximately 8%, primarily due to cash generated by operating and investing activities used to increase capital assets.

- During the year, the Hospital's total operating revenue increased approximately $19,614,000, or 12%, to $183,336,000 from the prior year while expenses increased $16,190,000, or 10%, to $174,194,000. The Hospital had income from operations of $9,143,000, which is approximately 5% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately $5,719,000, or 3% of operating revenue.

- The Hospital received approximately $2,904,000 in 2006 in disproportionate share payments related to Uncompensated Care Costs. Comparatively, the Hospital received approximately $2,700,000 in 2005 in intergovernmental transfer funds. In both years, these funds were offset against Medicaid contractual adjustments, resulting in an increase in net patient service revenue.

- During the fiscal year, the Hospital made capital investments for a total of approximately $14,209,000. The following is a list of significant items:

Capital Investments	**2006 Cost**
Heart Health Center Renovation	$3,339,000
Rehab Campus Renovation	2,424,000
North Access Road	1,017,000
Medical Center Expansion	1,003,000
Orthopedic Clinic Renovation	232,000
Patient Room Renovations	261,000

The source of the funding for these projects was derived from operations and receipts from 2003 bond issuances.

Net Assets

A summary of the Hospital's balance sheets are presented in Table 1 below:

TABLE 1
Condensed Balance Sheets

	June 30		
	2007	**2006**	**2005**
Total current assets	**$ 54,759,876**	$ 50,051,991	$ 44,844,072
Capital assets – net	**104,268,638**	91,990,172	88,957,902
Other assets, including board-designated investments	**109,514,292**	114,333,447	104,499,476
Total assets	**$ 268,542,806**	$ 256,375,610	$ 238,301,450
Current liabilities	**$ 29,549,136**	$ 27,557,396	$ 21,137,775
Long-term debt outstanding and other long-term liabilities	**94,364,992**	94,444,972	95,907,114
Total liabilities	**123,914,128**	122,002,368	117,044,889
Net assets:			
Invested in capital assets, net of related debt	**33,593,579**	20,751,211	16,714,883
Restricted net assets	**8,647,173**	8,459,015	8,575,318
Unrestricted net assets	**102,387,926**	105,163,016	95,966,360
Total liabilities and net assets	**$ 268,542,806**	$ 256,375,610	$ 238,301,450

As can be seen in Table 1, total assets increased by approximately $12,167,000 and $18,074,000 to approximately $268,543,000 and $256,376,000 during 2007 and 2006, respectively. The change in total assets is primarily due to increases in property, plant, and equipment exceeding depreciation expense for the year, and increases in investments, which were funded by the excess of revenues over expenses during fiscal years 2007 and 2006.

Summary of Revenue, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's revenues and expenses for each of the fiscal years ended June 30, 2007, 2006, and 2005:

TABLE 2
Condensed Statements of Revenue, Expenses, and Changes in Net Assets

	Years Ended June 30		
	2007	**2006**	**2005**
Revenue:			
Net patient service revenue	**$ 201,470,105**	$ 179,947,561	$ 160,806,228
Other	**4,034,196**	3,388,898	2,916,594
Total operating revenue	**205,504,301**	183,336,459	163,722,822
Expenses:			
Salaries and employee benefits	**127,112,443**	107,822,713	98,817,255
Supplies, contract services, equipment, and fees	**45,380,569**	40,718,452	35,169,684
Other operating expenses	**12,091,580**	9,889,588	9,113,793
Depreciation	**11,586,145**	11,023,424	10,344,497
Interest	**4,804,257**	4,739,462	4,558,484
Total operating expenses	**200,974,994**	174,193,639	158,003,713
Operating income	**4,529,307**	9,142,820	5,719,109
Investment income	**5,726,129**	3,973,861	2,921,906
Other	**–**	–	9,273
Excess of revenue and income over expenses	**10,255,436**	13,116,681	8,650,288
Net assets at beginning of year	**134,373,242**	121,256,561	112,606,273
Net assets at end of year	**$ 144,628,678**	$ 134,373,242	$ 121,256,561

Sources of Revenue

Operating Revenue

During fiscal years 2007, 2006, and 2005, the Hospital derived the majority, approximately 98%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs, other third-party payors, and patients. Reimbursement for the Medicare and Medicaid programs and other third-party payors is based upon established rates and contracts. The difference between the billed charges and the established contract is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the 2007, 2006, and 2005 fiscal years.

TABLE 3
Payor Mix by Percentage

	Years Ended June 30		
	2007	**2006**	**2005**
Managed care	**20%**	20%	19%
Medicare	**48**	47	49
Medicaid	**20**	21	20
Commercial insurance	**5**	5	6
Self-pay and other	**7**	7	6
Total patient revenues	**100%**	100%	100%

Other Revenue

The following table summarizes other revenue:

TABLE 4
Other Revenue

	Years Ended June 30		
	2007	**2006**	**2005**
Cafeteria	**$ 1,178,497**	$ 1,202,054	$ 1,085,738
Day care	**674,294**	641,103	551,670
Gift shop	**334,698**	328,060	257,817
Rental income	**600,674**	527,157	433,855
X-ray school income	**124,327**	110,359	152,057
Premier purchasing rebates	**337,591**	309,273	233,381
Miscellaneous	**784,115**	270,892	202,076
Total other revenue	**$ 4,034,196**	$ 3,388,898	$ 2,916,594

Investment Income

As a Hospital Service District, governed by the state of Louisiana, Louisiana statutes authorize the Hospital to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

The Hospital holds designated and restricted funds that are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies. These investments had a total return of $5,726,129, $3,973,861, and $2,921,906 during fiscal years 2007, 2006, and 2005, respectively.

Operating and Financial Performance

Overall activity at the Hospital, as measured by patient discharges, improved 2.8% to 16,501 discharges in 2007 from 16,059 discharges in 2006. Patient days increased .9% over the prior year from 85,744 in 2006 to 86,510 in 2007. The average length of stay for all patients (excluding newborns) decreased to 5.2 days in 2007 from 5.3 days in 2006.

Outpatient registrations improved 5% to 94,793 in 2007 from 90,679 in 2006. Clinic visits increased 33% to 47,512 in 2007 from 35,792 in 2006.

Overall activity at the Hospital, as measured by patient discharges, improved 5.0% to 16,059 discharges in 2006 from 15,288 discharges in 2005. Patient days increased 7.3% over the prior year from 79,914 in 2005 to 85,744 in 2006. The average length of stay for all patients (excluding newborns) increased to 5.3 days in 2006 from 5.2 days in 2005.

Outpatient registrations improved 14% to 90,679 in 2006 from 79,321 in 2005. Clinic visits increased 21% to 35,792 in 2006 from 29,691 in 2005.

TABLE 5
Patient and Hospital Statistical Data

	Years Ended June 30		
	2007	**2006**	**2005**
Admissions:			
Adult and pediatric	**14,122**	13,544	12,875
Newborn and NICU	**1,803**	1,702	1,478
Psychiatric care	**429**	534	404
CMR services	**447**	445	587
Patient days:			
Adult and pediatric	**69,381**	68,165	63,313
Medicare (included in adult and pediatric)	**40,004**	38,278	36,525
Medicaid (included in adult and pediatric)	**13,491**	14,217	13,083
Newborn and NICU	**7,048**	7,678	5,885
Psychiatric care	**4,599**	5,239	5,062
CMR services	**5,482**	4,662	5,654
Operating room patients	**10,431**	9,908	9,367
Outpatient registrations	**94,793**	90,679	79,321
Emergency room visits	**72,724**	72,188	68,462
Average daily census:			
Adult and pediatric	**190**	187	174
Psychiatric care	**13**	14	14
CMR services	**15**	13	16
Average length of stay (excluding newborn):			
All patients	**5.2**	5.3	5.2
Medicare patients	**6.2**	6.4	6.2
Medicaid patients	**3.9**	4.1	4.0
Psychiatric care	**10.7**	9.9	12.4
CMR services	**12.5**	10.5	9.7
Percentage of total patient days:			
Medicare	**57.6%**	56.2%	57.7%
Medicaid	**19.4%**	20.9%	20.7%
Home health visits	–	912	7,447
Clinic visits	**47,512**	35,792	29,691
Full-time equivalents (FTEs)	**1,916**	1,825	1,799

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2007 and 2006:

Increases in net patient service revenue primarily were due to rate and volume increases as depicted on the proceeding page, Table 5, Patient and Hospital Statistical Data. Net patient services revenue represents gross patient revenue net of allowances.

Allowances increased over prior year as described in the table below:

TABLE 6
Allowance Summary

	Years Ended June 30		
	2007	**2006**	**2005**
Allowances:			
Provision for bad debts	**$ 37,811,033**	$ 30,418,200	$ 20,309,252
Charity care	**4,436,282**	4,284,919	7,165,974
Other adjustments	**2,433,750**	1,800,486	2,170,208
Blue Cross, Louisiana State Employees Group benefits, and other contractual allowances	**101,614,804**	71,106,062	50,914,319
Medicaid contractual allowances	**128,714,545**	104,673,346	82,505,251
Medicare contractual allowances	**239,298,044**	186,804,452	170,006,762
	$514,308,458	$399,087,465	$333,071,766

Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of $4,436,000 were forgone during 2007, compared to $4,285,000 in 2006, or a 4% increase from the prior fiscal year.

Salaries expense increased $14,726,600, or 17%, to $102,094,700 in 2007 from $87,368,100 in 2006. As a percentage of net patient service revenue, salary expense was approximately 51% and 49% for the fiscal years ended June 30, 2007 and 2006, respectively. This increase was primarily due to an increase in contract nursing cost caused by a nursing shortage after Hurricane Katrina.

Employee benefit expense increased $4,563,000, or 22%, from prior year. As a percentage of salaries expense, employee benefit expense was approximately 25% and 23% for the fiscal years ended June 30, 2007 and 2006, respectively. This increase was primarily due to increases in health insurance cost and medical premiums.

- Supplies expense increased $3,764,000, or 13%, from prior year. As a percentage of net patient service revenue, supplies expense remained consistent at 17% for the fiscal years ended June 30, 2007 and 2006. The increase in supplies expense was primarily due to volume increases and cost increases of medical supplies due to addition of neuromedical services.

Contract services, equipment, and fees increased $899,000, or 8%, from prior year. This increase was primarily a result of the costs associated with additional maintenance and service contracts.

Other operating expenses increased approximately $2,202,000, or 22%, from prior year. As a percentage of operating revenue, other operating expenses increased to 6% from 5% for the fiscal years ended June 30, 2007 and 2006, respectively. This increase is due to increases in patient compensation fund insurance premiums and physician/nurse recruitment costs.

Depreciation expense increased approximately $563,000, or 5%, from prior year. This increase is due to major building additions being placed in service.

Interest expense increased approximately $65,000, or 1%, from prior year. This increase is primarily due to increased interest rates on 2003B variable bonds.

Total operating expenses increased by $26,781,000 for the year ended June 30, 2007, for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the board of commissioners and funds held by trustee under bond resolution. Additionally, the realized and net unrealized gain or loss on the fair market value adjustments is also included in this amount. Total investment income increased from the prior year due primarily to changes in interest rates earned on investments.

The following summarizes the Hospital's statements of revenue, expenses, and changes in net assets between 2005 and 2004:

Excluded from net patient service revenue are charges forgone for patient services falling under the Hospital's charity care policy. Based on established rates, gross charges of $4,285,000 were forgone during 2006, compared to $7,166,000 in 2005, or a 40% decrease from the prior fiscal year. The reduction in charity care in fiscal year 2006 was mainly due to the DHH 1115 waiver payment which provided relief for hospital uncompensated care cost after Hurricane Katrina.

Salaries expense increased $7,089,500, or 9%, to $87,368,100 in 2006 from $80,278,600 in 2005. As a percentage of net patient service revenue, salary expense was approximately 49% and 50% for the fiscal years ended June 30, 2006 and 2005, respectively. This decrease was primarily due to an increase in net patient service revenue.

Employee benefit expense increased $1,916,000, or 10%, from prior year. Employee benefit expense remained consistent at 23% of salaries expense each year.

Supplies expense increased $4,342,000, or 17%, from prior year. As a percentage of net patient service revenue, supplies expense was approximately 17% and 16% for the fiscal years ended June 30, 2006 and 2005, respectively. The increase in supplies expense was primarily due to volume increases and cost increases of medical supplies.

Contract services, equipment, and fees increased $1,206,500, or 12%, from prior year. This increase was primarily a result of the costs associated with additional maintenance and service contracts.

Other operating expenses increased approximately $776,000 from prior year, which represents 5% of operating revenue, consistent with the prior-year percentage.

Depreciation expense increased approximately $679,000, or 7%, from prior year. This increase is due to major building additions being placed in service.

Interest expense increased approximately $181,000, or 4%, from prior year. This increase is primarily due to increased interest rates on 2003B variable bonds.

Total operating expenses increased by $16,190,000 for the year ended June 30, 2006, for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the board of commissioners and funds held by trustee under bond resolution. Additionally, the realized and net unrealized gain or loss on the fair market value adjustments is also included in this amount. Total investment income increased from the prior year due primarily to changes in interest rates earned on investments.

Capital Assets

During fiscal years 2007 and 2006, the Hospital invested $23,025,000 and $12,559,000, respectively, in a broad range of property, plant, and equipment included in Table 7 below.

TABLE 7
Property, Plant, and Equipment

	June 30 2007	2006	2005
Land	**$ 5,737,335**	$ 4,076,858	$ 4,214,358
Building and equipment	**209,475,282**	194,547,958	187,883,509
Subtotal	**215,212,617**	198,624,816	192,097,867
Less accumulated depreciation	**126,716,030**	115,522,224	105,060,169
Construction in progress	**15,772,051**	8,887,580	1,920,204
Net property, plant, and equipment	**$104,268,638**	$ 91,990,172	$ 88,957,902

Net property, plant, and equipment has increased as the Hospital has enhanced existing facilities and equipment and is in the process of building new space to accommodate inpatient services.

In Table 8, the Hospital's fiscal year 2008 capital budget projects spending up to $27,475,000 for capital projects. These projects will be financed from operations and bond proceeds from previous fundings. More information about the Hospital's capital assets is presented in the notes to the basic financial statements.

TABLE 8
Fiscal Year 2008 Capital Budget

Equipment purchases	$ 5,580,000
Hospital renovations	840,000
NOMC expansion	10,335,000
Auditorium	1,150,000
Human Resources build out	150,000
Resource Center Building	9,420,000
Total	$ 27,475,000

Long-Term Debt (Excluding Capital Leases)

In July 2003, $70,000,000 of Hospital Revenue bonds were sold, and in August 2003, an additional $20,000,000 of bonds were sold. The net proceeds of these sales are being used to fund additions, renovations, and improvements to the Hospital's facilities. Additionally, approximately $47,500,000 of the Series 1994 bonds were repaid by the 2003 issues. Further, in June 2004, $5,000,000 of Hospital Refunding Bonds were sold. The net proceeds of these sales were used to repay additional amounts of Series 1994 Bonds.

At June 30, 2007, the Hospital had $91,230,000 in short-term and long-term debt. Total debt has decreased by $1,781,000 in fiscal year 2007, which was due to principal payments. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents approximately 34% of the Hospital's total assets at June 30, 2007, as compared to 36% at June 30, 2006.

At June 30, 2006, the Hospital had $93,011,000 in short-term and long-term debt. Total debt has decreased by $1,642,000 in fiscal year 2006, which was due to principal payments. More detailed information about the Hospital's long-term liabilities is presented in the notes to basic financial statements. Total debt outstanding represents approximately 36% of the Hospital's total assets at June 30, 2006, as compared to 40% at June 30, 2005.

Contacting the Hospital's Financial Officer

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.

Basic Financial Statements

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Balance Sheets

	June 30 2007	June 30 2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 5,450,658**	$ 5,423,671
Short-term investments	**1,000,000**	2,000,000
Patient accounts receivable, net of allowance for uncollectibles of $18,631,000 in 2007 and $10,942,000 in 2006	**39,679,670**	35,156,263
Current portion of designated cash and investments	**2,476,193**	2,382,481
Inventories	**3,694,535**	2,771,580
Prepaid expenses and other current assets	**2,458,820**	2,317,996
Total current assets	**54,759,876**	50,051,991
Designated cash and investments:		
Under bond indenture agreement held by trustee	**29,183,106**	30,211,652
By board for plant and equipment additions and replacements	**71,090,857**	75,515,006
By board for self-insurance claims	**1,579,111**	1,540,378
	101,853,074	107,267,036
Less current portion	**2,476,193**	2,382,481
Noncurrent designated cash and investments	**99,376,881**	104,884,555
Property, plant, and equipment:		
Land	**5,737,335**	4,076,858
Buildings and equipment	**209,475,282**	194,547,958
Construction in progress	**15,772,051**	8,887,580
	230,984,668	207,512,396
Less accumulated depreciation	**126,716,030**	115,522,224
Property, plant, and equipment, net	**104,268,638**	91,990,172
Unamortized financing costs, net	**4,016,673**	4,385,438
Note receivable	**353,451**	380,748
Deferred compensation plan investments	**3,571,165**	3,191,620
Other assets	**2,196,122**	1,491,086
Total assets	**$268,542,806**	$256,375,610

	June 30	
	2007	**2006**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 10,959,718**	$ 9,674,444
Accrued salaries and payroll-related costs	**6,051,032**	5,732,376
Accrued interest payable	**1,602,619**	1,612,668
Accrued self-insurance claims	**3,526,398**	3,418,918
Estimated third-party payor settlements – Medicare and Medicaid	**4,190,711**	5,361,635
Current portion of capital lease obligations	**20,731**	16,963
Current portion of long-term debt	**1,806,560**	1,740,392
Current portion of deferred revenue	**1,391,367**	–
Total current liabilities	**29,549,136**	27,557,396
Capital lease obligations, excluding current portion	**49,971**	84,543
Long-term debt, net of unamortized bond premium of $166,000 in 2007 and $178,000 in 2006, excluding current portion	**89,352,489**	91,168,809
Deferred compensation plan obligations	**3,571,165**	3,191,620
Deferred revenue	**1,391,367**	–
Total liabilities	**123,914,128**	122,002,368
Net assets:		
Invested in capital assets, net of related debt	**33,593,579**	20,751,211
Restricted net assets	**8,647,173**	8,459,015
Unrestricted net assets	**102,387,926**	105,163,016
Total net assets	**144,628,678**	134,373,242
Total liabilities and net assets	**$268,542,806**	$256,375,610

See accompanying notes.

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Statements of Revenue, Expenses, and Changes in Net Assets

	Years Ended June 30	
	2007	**2006**
Revenue:		
Net patient service revenue	**$ 201,470,105**	$ 179,947,561
Other	**4,034,196**	3,388,898
Total operating revenue	**205,504,301**	183,336,459
Expenses:		
Salaries	**102,094,669**	87,368,079
Employee benefits	**25,017,774**	20,454,634
Supplies	**33,467,261**	29,703,648
Contract services, equipment, and fees	**11,913,308**	11,014,804
Other operating expenses	**12,091,580**	9,889,588
Depreciation	**11,586,145**	11,023,424
Interest	**4,804,257**	4,739,462
Total operating expenses	**200,974,994**	174,193,639
Operating revenue in excess of operating expenses	**4,529,307**	9,142,820
Investment income (loss):		
Investment income	**5,787,168**	4,333,751
Unrealized gain (loss) on investments	**43,834**	(356,132)
Realized loss on investments	**(104,873)**	(3,758)
Total investment income	**5,726,129**	3,973,861
Excess of revenue and income over expenses	**10,255,436**	13,116,681
Net assets at beginning of year	**134,373,242**	121,256,561
Net assets at end of year	**$ 144,628,678**	$ 134,373,242

See accompanying notes.

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Statements of Cash Flows

	Years Ended June 30	
	2007	**2006**
Operating activities		
Cash collected from patients and third-party payors	**$ 202,581,140**	$ 183,238,032
Cash payments to employees and for employee-related costs	**(126,686,308)**	(107,326,333)
Cash payments for supplies, services, and other operating expenses	**(57,928,394)**	(48,583,839)
Net cash provided by operating activities	**17,966,438**	27,327,860
Capital and related financing activities		
Purchases of property, plant, and equipment	**(23,854,632)**	(14,208,689)
Proceeds from disposals of assets	**21,085**	165,441
Principal payments on long-term debt incurred for capital purposes	**(1,757,712)**	(1,665,392)
Principal payments on capital lease obligations	**(38,304)**	(31,815)
Interest payments on long-term debt and capital lease obligations	**(4,457,479)**	(4,361,095)
Other	**7,500**	67,637
Net cash used in capital and related financing activities	**(30,079,542)**	(20,033,913)
Investing activities		
Investment income	**5,787,168**	4,333,751
Change in short-term investments	**1,000,000**	(1,000,000)
Purchases of designated cash and investments	**(79,447,089)**	(60,016,985)
Proceeds from sales and maturities of designated cash and investments	**84,800,012**	51,141,167
Net cash provided by (used in) investing activities	**12,140,091**	(5,542,067)
Net change in cash	**26,987**	1,751,880
Cash and cash equivalents at beginning of year	**5,423,671**	3,671,791
Cash and cash equivalents at end of year	**$ 5,450,658**	$ 5,423,671

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana

Statements of Cash Flows (continued)

	Years Ended June 30 2007	2006
Reconciliation of income from operations to net cash provided by operating activities		
Operating revenue in excess of operating expenses	**$ 4,529,307**	$ 9,142,820
Adjustments to reconcile operating revenue in excess of operating expenses to net cash provided by operating activities:		
Depreciation	**11,586,145**	11,023,424
Bad debt expense	**37,811,033**	30,418,200
Net loss on disposals of assets	**(11,564)**	(12,446)
Amortization of financing costs	**368,765**	375,769
Amortization of premium on long-term debt	**(11,939)**	(12,002)
Interest expense on long-term debt and capital lease obligations	**4,447,429**	4,375,695
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**(42,334,440)**	(34,143,690)
Inventories, prepaid expenses, and other assets	**(1,741,518)**	(171,113)
Estimated third-party payor settlements – Medicare and Medicaid	**(1,170,924)**	3,639,509
Accounts payable, accrued salaries, payroll-related costs, and other accrued expenses	**4,494,144**	2,691,694
Net cash provided by operating activities	**$ 17,966,438**	$ 27,327,860

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the Hospital or the District), is a nonprofit public corporation organized under powers granted to parish police juries or councils by Chapter 10, Title 46, of the Louisiana Revised Statutes of 1950, as amended. The District is a political subdivision of the state of Louisiana. All corporate powers are vested in the board of commissioners appointed by the Tangipahoa Parish Council. The District owns and operates North Oaks Medical Center, a 269-bed acute-care hospital, and North Oaks Rehabilitation Hospital, a 27-bed hospital that provides rehabilitation services. The hospitals are located on two campuses in the city of Hammond, Louisiana. As a political subdivision of the state of Louisiana, the Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code and from state income taxes.

Basis of Accounting

The Hospital reports in accordance with accounting principles generally accepted in the United States as specified by the American Institute of Certified Public Accountants' *Audits of Providers of Health Care Services* and, as a governmental entity, also reports in accordance with accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

The Hospital uses the accrual basis of accounting for proprietary funds. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by board of commissioners' designation or under trust agreements.

Short-Term Investments

Short-term investments include investments with a maturity date of 12 months or less.

1. Organization and Significant Accounting Policies (continued)

Investments

All investments are stated at fair value based on quoted market prices. Changes in the difference between the cost and the fair market value of the investments are included in investment income.

Investment income is reported as nonoperating income.

Inventories

Inventories are valued at the latest invoice price, which approximates market.

Property, Plant, and Equipment

The Hospital records all property, plant, and equipment acquisitions at cost except for assets donated to the Hospital. Donated assets are recorded at appraised value at the date of donation. The Hospital provides for depreciation of its plant and equipment using the straight-line method based on the estimated useful lives of the assets as suggested by the American Hospital Association. Equipment recorded under capital lease obligations is included in buildings and equipment, and the associated amortization of these assets is included in depreciation expense.

Unamortized Financing Costs

The Hospital defers costs incurred in connection with the issuance of the bonds and amortizes such costs using the effective interest method over the life of the bond issue. The amortization is included in interest expense. Additionally, the difference between the reacquisition price of the Series 1994 Bonds and the net carrying amount was deferred. Approximately $4,500,000 has been included in the unamortized financing costs and is being amortized as a component of interest expense over the original life of the Series 1994 Bonds.

Self-Insurance Claims

Accrued self-insurance claims represent the Hospital's best estimate of incurred but unpaid expenses for professional liability, workers' compensation, and employee health claims.

1. Organization and Significant Accounting Policies (continued)

Net Assets

The Hospital's net assets are classified into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These components are defined as follows:

- Invested in capital assets, net of related debt—This component reports capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in this component of net assets. Rather, that portion of debt should be included in the same net asset component as the unspent proceeds. At June 30, 2007 and 2006, approximately $20,555,000 and $21,772,000, respectively, of unspent bond proceeds was included in unrestricted net assets.

- Restricted—This component reports those net assets with externally imposed constraints on their use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted—This component reports net assets that do not meet the definition of either of the other two components, "restricted" or "invested in capital assets, net of related debt."

Statements of Revenue, Expenses, and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are included in operating revenue or expenses. All peripheral transactions are reported as a component of nonoperating income.

Net Patient Service Revenue and Related Receivables

The Hospital has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

1. Organization and Significant Accounting Policies (continued)

Net patient service revenue is reported at the estimated amounts realizable from patients, third-party payors, and others for services rendered. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined. These adjustments resulted in an increase to net patient service revenue of $320,000 in 2007 and an increase of $375,000 in 2006.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided.

Medicare and Medicaid Reimbursement

The Hospital is reimbursed under the Medicare Prospective Payment System (PPS), which reimburses the Hospital a predetermined amount for Medicare inpatient acute services rendered based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. Medicaid inpatient services are paid on a prospective per diem basis.

The Hospital is reimbursed for Medicare outpatient services under the Ambulatory Payment Classification (APC) based on fixed rates per outpatient procedure.

Medicaid outpatient services such as laboratory, outpatient surgery, and rehabilitation are reimbursed under fee schedule payment methodology, while other outpatient services are reimbursed based on 86.2% of total cost.

Medicare bad debts, Medicare Disproportionate Share Hospital (DSH) payments, and Medicaid non-fee schedule outpatient services were reimbursed on a tentative basis during the year, which is subject to a retroactive payment adjustment determined in accordance with appropriate Medicare or Medicaid program regulations. It is at least reasonably possible that the recorded estimates will change by material amounts in the near term. Retroactive cost settlements are accrued on an estimated basis in the period the related services are rendered and adjusted as necessary in future periods as final settlements are determined. Medicare and Medicaid settlements have been determined following the principles of reimbursement applicable to each program and have been recorded in the accounts of the Hospital.

1. Organization and Significant Accounting Policies (continued)

During the years ended June 30, 2007 and 2006, the Hospital's gross patient revenue derived from Medicare and Medicaid program beneficiaries remained consistent at 68%.

Deferred Revenue

During 2007, the Hospital received approximately $4,174,000 from a Medicare Stabilization Grant as part of the Deficit Reduction Act Katrina Healthcare Related of which $1,391,000 was recorded as net patient service revenue in 2007. The remaining $2,784,000 has been deferred and will be recognized in future periods. The grant was issued to offset the increase in labor costs resulting from the effects of Hurricane Katrina for the periods through June 30, 2009.

Income Taxes

The Hospital is exempt from federal income taxation as a political subdivision of the state of Louisiana and, accordingly, the accompanying financial statements do not include any provision for income taxes.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

The prior year financial statements have been reclassified to conform to the current year presentation.

2. Cash, Investments, and Designated Cash and Investments

At June 30, cash and investments balances were as follows:

	Maturity	Fair Value
2007		
Securities type:		
U.S. backed government obligations	**2007-2009**	**$ 43,327,300**
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	–	**64,976,432**
		$ 108,303,732
2006		
Securities type:		
U.S. backed government obligations	2006-2010	$ 20,353,150
Cash and cash equivalents, certificates of deposit, and accrued interest receivable	–	94,337,557
		$ 114,690,707

Louisiana statutes authorize the Hospital to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions. The composition of asset allocation and specific allocation of funds is outlined below, and the result is that maturity terms are staggered.

2. Cash, Investments, and Designated Cash and Investments (continued)

	Desired % of Range of Overall Portfolio	Maximum % of Overall Portfolio
Type of Investment:		
Certificates of Deposit	0% to 100%	100%
Direct U.S. Treasury obligations (T-Bills, T-Notes)	0% to 100%	100%
Treasury Funds	0% to 100%	100%
Bonds of Notes – issued or guaranteed by federal agencies, or government instrumentalities (which are federally sponsored)	0% to 100%	100%
Mutual Funds (100% Government-Backed)	0% to 25%	25%
Term of Investments:		
0 to 6 months	0% to 100%	100%
6 months to 1 year	0% to 100%	100%
1 year to 5.5 years	0% to 100%	100%
5.5 years to 10 years	0% to 30%	30%
Greater than 10 years, but less than 20 years	0% to 30%	30%

During the years ended June 30, 2007 and 2006, the Hospital invested primarily in securities issued by the U.S. Treasury and other federal agencies.

Credit Risk – Investments

Obligations of the U.S. government or explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The Hospital had investments in obligations of the U.S. government or explicitly guaranteed by the U.S. government with a fair value of $43,327,300 at June 30, 2007.

2. Cash, Investments, and Designated Cash and Investments (continued)

Concentration of Credit Risk

As required under GASB 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At June 30, 2007, the Hospital had no investments requiring concentration of credit risk disclosure.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. As of June 30, 2007, $33,859,000 of the Hospital's bank balances of $34,259,000 were collateralized with securities held by the pledging financial institutions to cover any exposure to credit risk as uninsured. The remaining balance was protected by insurance.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2007, the Hospital was not exposed to custodial credit risk for its investments as all were registered in the name of the Hospital.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

2. Cash, Investments, and Designated Cash and Investments (continued)

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Hospital's segmented time distribution investment maturities in years by investment type as of June 30, 2007.

		Years		
Investment Type	**Fair Value**	**< 1**	**1 – 5**	**> 5**
Federal National Mortgage Association	$ 2,415,943	$ 1,999,380	$ 416,563	$ –
Federal Home Loan Bank	24,946,630	24,946,630	–	–
Federal Home Loan Mortgage Corporation	15,964,670	10,975,370	4,989,300	–
Total	$ 43,327,243	$37,921,380	$ 5,405,863	$ –

3. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and who are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30, 2007 and 2006, was as follows:

	2007	**2006**
Medicare	**30%**	24%
Medicaid	**13**	14
Managed care payors	**26**	32
Other third-party payors	**12**	12
Patients	**19**	18
	100%	100%

4. Designated Cash and Investments

The terms of the Hospital's Revenue Bonds (see Note 9) require funds to be maintained on deposit in certain accounts with the trustee. The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the related bond resolutions. As of June 30, 2007 and 2006, the funds were deposited as follows:

	2007	2006
Bond principal account	$ 744,340	$ 718,632
Bond interest account	1,757,712	1,732,766
Bond construction account	20,554,692	21,771,746
Reserve accounts and other	6,126,363	5,988,508
	$29,183,107	$30,211,652

The Hospital's board of commissioners has designated Hospital funds to be used for future plant and equipment additions, separate and apart from the expansion program (see Note 13), and to fund self-insurance claims. These funds were invested in certificates of deposit, U.S. government obligations, and money market funds at June 30, 2007 and 2006.

5. Note Receivable

The Hospital entered into an agreement with the Cancer, Radiation, and Research Foundation (the Foundation) for the purpose of constructing a facility that provides radiation oncology treatments on an outpatient basis. Under the terms of the agreement, the Hospital loaned funds to the Foundation to construct the facility on the Hospital campus. The note receivable is payable over 30 years and bears an annual interest rate of 5.5%. The note receivable balance was $353,500 at June 30, 2007 and $380,700 at June 30, 2006.

The Hospital holds a mortgage on the facility (excluding equipment, furniture, and fixtures) to collateralize the note receivable. In addition, the Hospital agreed to lease the land upon which the facility is located to the Foundation for a nominal annual rental fee. The initial lease term is for 30 years with three successive ten-year renewal options.

6. Property, Plant, and Equipment

The Hospital's investment in property, plant, and equipment consisted of the following as of June 30, 2007:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
			(In Thousands)		
Land and land improvements	**$ 4,076**	**$ 1,661**	**$ –**	**$ –**	**$ 5,737**
Buildings and fixed equipment	**119,630**	**1,784**	**–**	**6,059**	**127,473**
Equipment	**74,918**	**7,486**	**401**	**–**	**82,003**
Construction in progress	**8,888**	**12,943**	**–**	**(6,059)**	**15,772**
	207,512	**23,874**	**401**	**–**	**230,985**
Less accumulated depreciation	**115,522**	**11,586**	**392**	**–**	**126,716**
Property, plant, and equipment, net	**$ 91,990**	**$ 12,288**	**$ 9**	**$ –**	**$ 104,269**

The Hospital's investment in property, plant, and equipment consisted of the following as of June 30, 2006:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
			(In Thousands)		
Land and land improvements	$ 4,214	$ –	$ 138	$ –	$ 4,076
Buildings and fixed equipment	117,736	85	–	1,809	119,630
Equipment	70,147	5,347	577	1	74,918
Construction in progress	1,920	8,778	–	(1,810)	8,888
	194,017	14,210	715	–	207,512
Less accumulated depreciation	105,060	11,004	542	–	115,522
Property, plant, and equipment, net	$ 88,957	$ 3,206	$ 173	$ –	$ 91,990

7. Employee Retirement Plan

The Hospital has a defined contribution plan that covers all full-time employees who elect to participate after they have met certain eligibility requirements. Under the plan, the Hospital is required to contribute a specified percentage of eligible employees' salaries based on years of service. Participants may contribute up to the maximum level allowed by the Internal Revenue Code (IRC) or 25% of gross salary, whichever is less. The participants vest immediately in all participant contributions and vest 100% over a five-year cliff vesting schedule in all Hospital

7. Employee Retirement Plan (continued)

contributions. The retirement benefits received by the participants will depend upon the accumulated value of their accounts at distribution upon termination, attaining age 59½, severe financial hardship, or death.

Retirement expense, included in employee benefit expense, was approximately $2,234,000 in 2007 and $2,055,000 in 2006, representing the required contributions in both years.

The Hospital also sponsors two deferred compensation plans covering substantially all employees. These plans were established under Section 457 of the IRC. The Hospital reports the plan assets and a corresponding liability in the accompanying financial statements. Accordingly, the Hospital has recorded an asset and a corresponding liability of $3,571,165 and $3,191,620 for the fair market value of the plans' combined assets as of June 30, 2007 and 2006, respectively.

8. Risk Management

The Hospital participates in the State of Louisiana Patient Compensation Fund (the Fund). The Fund provides malpractice coverage to the Hospital for claims in excess of $100,000, up to $500,000. According to current state law, medical malpractice liability (exclusive of future medical care awards) is limited to $500,000 per occurrence. Hospital management has no reason to believe that the Hospital will be prevented from continuing its participation in the Fund.

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging general and malpractice liability have been asserted against the Hospital and are currently in various states of litigation. The Hospital has accrued $1,785,000 and $1,469,000 as of June 30, 2007 and 2006, respectively, for the estimated losses and expenses related to general and professional liability claims for which the Hospital is self-insured. Claims have been filed alleging damages in excess of the amount accrued for estimated malpractice costs. It is the opinion of management that estimated malpractice costs accrued are adequate to provide for probable losses resulting from pending or threatened litigation. Additional claims may be asserted against the Hospital arising from services provided to patients. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims; however, an accrual has been made based on estimates for these claims.

8. Risk Management (continued)

The Hospital has commercial insurance that provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The Hospital had accrued $1,742,000 and $1,950,000 at June 30, 2007 and 2006, respectively, for employee health insurance and workers' compensation claims.

The following table summarizes the changes in the self-insurance liability:

Year Ended June 30	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2007	**$3,419,000**	**$ 13,496,000**	**$ 13,389,000**	**$ 3,526,000**
2006	$3,871,000	$ 10,790,000	$ 11,242,000	$ 3,419,000

9. Long-Term Debt and Capital Lease Obligations

The Hospital's long-term debt consisted of the following:

	June 30 2007	June 30 2006
Hospital Revenue Bonds, Series 2003A	**$67,650,000**	$68,350,000
Hospital Revenue Bonds, Series 2003B	**20,000,000**	20,000,000
Hospital Revenue Bonds, Series 2004	**3,295,000**	4,310,000
Other	**118,503**	172,519
Total	**91,063,503**	92,832,519
Plus: unamortized bond premium on 2004 and 2003 bonds	**166,248**	178,188
	91,229,751	93,010,707
Less: current portion	**1,827,291**	1,757,355
Long-term debt, less current maturities	**$89,402,460**	$91,253,352

9. Long-Term Debt and Capital Lease Obligations (continued)

On July 5, 1994, the District issued $61,535,000 of Hospital Revenue Bonds, Series 1994 (the Series 1994 Bonds). The Series 1994 Bonds originally consisted of $16,190,000 of serial bonds and $45,345,000 of term bonds. Portions of the 1994 bonds were repaid in 2004. Payments of the scheduled principal and interest on the 1994 Revenue Bonds are insured by AMBAC Indemnity Corporation.

On July 2, 2003, the District issued $70,000,000 of Hospital Revenue and Refunding Bonds, Series 2003A. Approximately $50,000,000 of the Series 2003A Bond proceeds was used to repay a portion of the Series 1994 Bonds. The Series 2003A Bonds originally consisted of $24,080,000 of serial bonds and $45,920,000 of term bonds. The serial bonds mature annually in amounts ranging from $700,000 in 2007 to $2,895,000 in 2018 and bear interest at rates ranging from 2.75% to 5.375%. The term bonds consist of $24,095,000 due February 1, 2025, bearing interest at 5% and $21,825,000 due February 1, 2030, bearing interest at 5%. Under the terms of the bond indenture, the Hospital is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days cash on hand. The Hospital was in compliance with these provisions of the bond indenture at June 30, 2007.

On August 28, 2003, the District issued $20,000,000 of Hospital Revenue Bonds, Series 2003B. These serial bonds mature annually in amounts ranging from $2,625,000 in 2030 to $5,920,000 in 2033 at variable interest rates not to exceed 12%. Under the terms of the bond indenture, the Hospital is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days cash on hand. The Hospital was in compliance with these provisions of the bond indenture at June 30, 2007.

On June 30, 2004, the District issued $5,000,000 of Hospital Revenue Refunding Bonds, Series 2004. The net proceeds of these bonds were used to repay additional amounts of the Series 1994 Bonds. These serial bonds mature annually in amounts ranging from $1,015,000 in 2007 to $1,145,000 in 2010, bearing interest at 3.34%. Under the terms of the bond indenture, the Hospital is required to maintain, among other provisions, a certain debt service coverage ratio and minimum levels of days cash on hand. The Hospital was in compliance with these provisions of the bond indenture at June 30, 2007.

9. Long-Term Debt and Capital Lease Obligations (continued)

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2007, were as follows:

	Principal	Interest
2008	$ 1,790,949	$ 3,690,361
2009	1,855,685	3,618,818
2010	1,915,000	3,544,675
2011	2,035,000	3,479,482
2012	2,140,000	3,377,979
2013 – 2017	12,430,000	15,133,958
2018 – 2022	15,990,000	11,578,150
2023 – 2027	20,410,000	7,145,248
2028 – 2032	26,495,000	1,884,220
2033	5,920,000	40,215
	$ 90,981,634	$ 53,493,106

10. Operating Lease Obligations

The Hospital has entered into various cancelable operating leases for equipment. Operating lease expense was approximately $708,000 and $673,000 for the years ended June 30, 2007 and 2006, respectively.

11. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone, $4,436,000 in 2007 and $4,285,000 in 2006, for services and supplies furnished under its charity care policy.

12. Governmental Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

13. Commitments

The Hospital has various commitments totaling approximately $11,269,000 at June 30, 2007, and $9,962,000 at June 30, 2006. These commitments include expansion of North Oaks Medical Center, renovation of North Oaks Rehabilitation Hospital, and various capital equipment purchases.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards*

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have audited the financial statements of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the Hospital), as of and for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of commissioners, management, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

October 5, 2007